

FINANCIAL MANAGEMENT AND BUILDING OPERATION: THE NEW YORK ACADEMY OF MEDICINE

ROBERT M. BRERETON

Business Manager
The New York Academy of Medicine
New York, N. Y.

OVER the past 20 years, from 1946 to 1966, annual expenditures for operating the Academy have risen from \$358,000 to \$1,097,000. This increase in costs is attributable to a great extent to the strong inflationary forces that existed during this period. To a somewhat lesser degree but still of considerable importance were the increased costs involved in maintaining a sound competitive position in respect to personnel salaries. Severe shortages developed in the personnel market, particularly in New York City. This was due to the large business expansion that followed World War II. The shortage of personnel, felt most acutely in the secretarial, clerical, and professional librarian areas, meant that salaries in general increased; and the Academy, in order to maintain an adequate and properly qualified staff, had to meet the rising market rate. Since salaries represent a major share of the total expense of any service organization—in this case 70 per cent—the increase in over-all salary costs was substantial. The problem of meeting these costs remains a severe one today. Qualified personnel remain in short supply. In order to minimize the problem and still remain in as competitive a position as possible a program of extended fringe benefits was recently put into effect. Previously the chief fringe benefit had been an annuity program to which the employer still contributes 10 per cent of each full-time individual's salary. This amount is placed in a special fund from which the employee receives an annuity upon retirement. Participation in the social security program has also been provided, as well as a small amount of group life insurance. These benefits remain in effect, but have been extended to include health insurance coverage of both the basic and the major medical types. The basic coverage is without cost to the employee, and the major medical is on a cost-sharing basis. With the great increase in the cost of medical care these benefits represent attractive inducements to employment at the Academy. Also,

TABLE I

<i>Departmental Expense</i>	<i>1946 Per cent</i>	<i>1965 Per cent</i>
Administration	19.8	16.9
Building and plant	15.3	14.2
Library	37.5	42.4
Medical Education	5.6	5.1
Public Health	6.6	6.1
Special Studies	5.8	6.2
Publications and Medical Information	9.4	9.1
	100.0	100.0

the group life insurance program has been extended to permit male employees to participate on a contributory basis, the employer, however, paying most of the costs of subscribing to an amount of insurance equal to the individual's annual salary.

Another factor seriously affecting rising costs has been an increase in the prices paid for books and periodicals. The increase in this category of expense has been felt over a broad area, not only in the cost of medical publications but in almost all types of publications.

A breakdown of the operating costs of the various departments for the years 1946 and 1965 is shown in Table I. As may be seen from this table a larger proportion of the total expense was attributable to the Library and, to a lesser extent, to the Committee on Special Studies in 1965 than was the case in 1946.

The sources from which the Academy derived its income is shown in Table II, which clearly indicates that income from investments is still the major source of income. In fact such income is even more important now than it was in 1946 when, as this table indicates, income from investments was 44 per cent of the total. It is now almost 70 per cent. This increase has been due to two important factors. First, there was an increase in endowment through bequests from Fellows; the Academy has been most fortunate in this respect. Second, there was an increase as a result of the farsighted investment in common stocks of sound companies that participated in the growth of the national economy. Were it not for these substantial increases in income the Academy

TABLE II

<i>Sources of Income</i>	<i>1946 Per cent</i>	<i>1965 Per cent</i>
Investment income	44.0	69.7
Fellows' dues	20.9	10.3
<i>Bulletin</i> advertising	7.8	2.2
Room assessments	7.0	6.6
Photoduplication	4.7	3.9
Library subscriptions	0.6	1.7
Other	15.0	5.6
	100.0	100.0

could not have continued to grow. Another major source of income, almost 21 per cent in 1946, was Fellows' dues. As may be seen from Table II, this source has dropped in proportion to total income, but it remains the second most important source. With the exception of Library subscriptions, all other income categories now represent a smaller proportion of total income than they did in 1964.

In order to provide practical operating guidelines it has been customary to prepare annual budgets for both income and expenditure. The expense budget is initially prepared by the various department heads, reviewed by the director, and then presented to the Budget Committee. Final approval rests with the Trustees and the Council. In recent years monthly reports have been forwarded to the department heads to help them keep within the approved budget. These reports show how the actual expense for any given month and for any cumulative period within the year compares with the amount budgeted for that period.

As already mentioned, the greatest proportionate share of income is derived from investments. Table III shows how the endowed funds were invested in 1946 and in 1965, the percentages shown being based on market values. It is interesting to note from this table that in 1946 two thirds of the investments were in fixed-income securities and one in common stocks. By 1965 the relationship was changed considerably, 75 per cent of the total investments now being in common stocks and 25 per cent in fixed-income securities. This change reflects to a great extent the excellent growth made by the companies in which the Academy had

TABLE III

<i>Investment of Funds</i>	<i>1946 Per cent</i>	<i>1965 Per cent</i>
U.S. Government bonds	18.3	3.2
Corporate stocks	8.3	16.2
Preferred stocks	14.9	3.1
Common stocks	33.3	74.6
Mortgages	23.7	1.0
Savings accounts	1.5	1.9
	100.0	100.0

invested. Were the foregoing comparisons to be predicated upon the actual cost of securities, then the relationship for 1946 would remain approximately the same, whereas that for 1965 would be close to 50 per cent each for both fixed-income securities and common stocks.

The Trustees over the years have followed a sound investment policy in that securities purchased were of institutional investment quality. However, as may be seen from Table III, the type of securities in which investment was made has changed, as in the case of other educational organizations. Generally speaking, investment in corporate bonds and common stocks has increased and investment in real estate mortgages has decreased.

BUILDING OPERATION

In 1946 the Academy building was 20 years old. Indications were already present that the Library would require additional space. An architectural firm was engaged to study the requirements. A drive was activated to raise the necessary funds and, shortly thereafter, alterations were begun. An area at the far easterly end of the building was converted into five floors of stacks and one floor of work space for library purposes. In addition a balcony was erected over part of the periodicals area to provide more space there. Lighting in the reading room was improved. The last phase of this program was the demolition of two tenement buildings to the east, providing an area that was made into a small parking lot for cars of employees. The total cost of the program was \$370,000.

The next major building change, which took place in 1956, involved the renovation of the Presidents' Gallery. This included the application of wood paneling to the walls, the installation of new lighting fixtures, acoustical treatment, and improvement in the heating and ventilation of the area. The cost of this alteration amounted to \$26,000. This area now provides a very attractive setting for most of the dinner meetings held at the Academy.

Since 1957 several other projects have been carried out. A survey of the electrical wiring was made, and it was found that the supply of electric current to the building was no longer adequate to carry the demands placed upon it. It was decided to double the supply of electric current and to distribute the additional amount throughout the building. It then became possible to bring general lighting up to present-day standards and to install some badly needed air conditioning. In order to improve the effectiveness of meetings held at the Academy, public address systems were installed in meeting rooms that had none, and defective systems were replaced in other rooms. All slide and film projection equipment was replaced. It was necessary also to replace a sizable amount of office furniture and equipment which, due to long use, was beyond repair. This replacement of equipment and redecoration of office areas maintained personnel morale at a high level, and replacement personnel of high caliber was attracted to the organization. To safeguard the library collection adequately an automatic fire alarm was installed. Any extraordinary, sudden rise in temperature in any area of the Library will now activate the alarm. To keep pace with changes in the building code, major alterations were made in the heating plant, particularly in terms of automatic safety controls. The exterior of the building also received repairs of a major nature, including the repointing of stonework and the repainting of window frames and other metal surfaces, and waterproofing was done where required.

Two major changes were effected on the operational side. The first was to contract with an outside commercial organization for cleaning the building. Previously the Academy had employed its own personnel for this activity. It was felt that it would be more economical and would produce better results to have an outside contractor perform these services. This expectation proved correct beyond question. The second operational change was similar to the first but in a different area. The operation of the cafeteria, as well as the serving of dinners prior to

evening meetings, had been contracted out to individuals. With the relatively rapid turnover of persons employed in this service, quality suffered to a great extent. It was felt advisable to place this activity in the hands of a truly competent catering concern that could consistently maintain high quality of service and adequate personnel coverage. This was done, and the resulting improvements that had been anticipated were effected at a minimal increase in costs.

In concluding this description of the major changes and improvements made in the financial management and operation of the building during the past 20 years, mention should be made of the retirement in 1959 of Arthur E. Eberle. Mr. Eberle retired after almost 30 years of service to the Academy. He was succeeded by Robert M. Brereton, business manager.

Perhaps a few words should be said about the future. As in the past, continued close control of expenditures must be maintained. Present sources of income are merely sufficient to maintain the existing level of activity. They do not permit of any major expansion of activity. Yet such expansion will no doubt take place in the future as it has in the past. This is only normal for an organization such as the Academy. However, new sources of funding must be found to finance any increased program. These sources conceivably could include contributions to the endowment. It is only because of such generous past contributions that it has been possible to offset the large increase in expense mentioned earlier. Another source of funds that could provide the necessary financing of new projects would be grants from foundations or governmental bodies. Many other organizations have been aided by these sources in the financing of special projects.

The building that houses our activities is now 40 years old. It is normal in the case of a building of this age for maintenance and repairs to become more extensive and correspondingly more costly. As time goes on these problems will become more acute, and they will include such major items as replacement of the entire heating plant, including the steam lines and their returns; replacement of the hot and cold water lines; and, last but not least, replacement of the elevators. With such costly repairs as these certain to occur in the not too distant future, perhaps it would be more practical to think in terms of new building.